

Alternate Revenue Sources

Background

In recent years, the contributions of related third-party organizations (affiliated organizations) to LEAs in some jurisdictions have grown significantly. Although affiliated organizations always have made contributions (financial, in-kind or donated goods) to school districts, the magnitude of these contributions are substantial in certain cases and may significantly impact the school district's service delivery capabilities. Affiliated organizations generally include PTA/PTOs, school foundations, booster clubs and other organizations that exist for the benefit of the LEA. Contributions by affiliated organizations include, but are not limited to:

- Donating supplies and materials to LEAs directly or indirectly (to campus personnel)
- Donating equipment or other assets to LEAs directly or indirectly (providing them for use by LEA personnel)
- Donating funds to LEAs to purchase supplies and equipment or augment instructional salaries (e.g., stipends)
- Providing gifts, stipends or other payments to LEA personnel directly (i.e., without reporting to the LEA)
- Provisioning of instructional and non-instructional personnel who perform LEA functions, but who are not LEA personnel
- Donating funds for the construction of LEA facilities (e.g., instructional or athletic facilities)

In many cases the donations or contributions from affiliated organizations augment or replace expenditures made by an LEA. Thus, private funds act as a substitute for public funds that would be required to produce the same benefits for the LEA. For example, if a school foundation pays stipends to instructional personnel, the LEA may pay lower salaries than it would otherwise. In this example, the LEA may attract and retain better qualified personnel (and receive associated benefits) than other school districts that are paying the same salaries. In most cases, these contributions, whether made directly or indirectly, are not material to the financial statements of the LEA. Thus, such contributions would not misrepresent the financial position of the LEA if they were not reported.

In 1994 the Governmental Accounting Standards Board (GASB) issued an exposure draft of a new proposed statement entitled *The Financial Reporting Entity – Affiliated Organizations*. The exposure draft outlined new governmental reporting requirements related to affiliated organizations. Affiliated organization were defined as:

- An organization with separate legal standing

- An affiliation with the primary government that is set forth in the organization's articles of incorporation
- An affiliation with the primary government that is set forth in the organization's application to the IRS for tax-exempt status

Generally, the exposure draft required governments to report assistance received from affiliated organizations in their financial statements as component units. In addition, indirect benefits (salaries paid directly to primary government employees) were to be reported as transfers-in and transfers-out in the primary government's financial statements. Due to the significant opposition to the exposure draft, GASB is reevaluating the new reporting requirements.

Accounting Treatment

Currently, LEAs are required to account for and report any direct contributions made by affiliated organizations. Thus, LEAs typically record donations of funds, supplies and equipment as local revenues (with balancing entries for the related assets or expenditures). In addition, LEAs also are required to record and report payments to school district personnel that are made on-behalf of the LEA by external entities (including affiliated organizations). These payments include pension payments made by state agencies and stipends or other special payments to LEA personnel that otherwise would be made by the LEA. The reporting requirements for on-behalf payments are outlined in GASB Statement No. 24.

The lack of guidance from authoritative and regulatory bodies related to the broad range of contributions from affiliated organizations has resulted in a lack of consistency in the accounting for contributions that are not made directly to the LEA. In some cases, SEAs require LEAs to track and report any stipends or payments made to instructional or non-instructional personnel by affiliated organizations. This guidance is consistent with GAAP under the requirements of GASB Statement No. 24 regarding the reporting of on-behalf payments. In other cases, no tracking or reporting of contributions that are not made directly to the LEA is performed. Based on the current situation, we believe that the Handbook should provide additional guidance on the proper accounting treatment and reporting requirements related to direct and indirect benefits received from affiliated organizations. Several alternatives exist for the recording and reporting of these benefits including:

- Option 1: Reinforce the current GASB reporting requirements for donations of funds and assets and on-behalf payments. Essentially, this option maintains the status quo; however, it would require the creation of additional account codes to ensure that the LEAs properly record and report such donations and contributions.
- Option 2: Adopt reporting requirements for LEAs to record and report all direct and indirect contributions made by affiliated organizations. This option would be a radical change and require LEAs to record all contributions regardless of

type (instructional, non-instructional, etc.) and materiality. It would similarly require the creation of additional account codes to ensure that LEAs properly record and report such contributions. Such requirement would exceed the current GAAP reporting requirements promulgated by the GASB.

Option 3: Adopt reporting requirements for LEAs to record and report only material direct and indirect contributions made by affiliated organizations. This option is more conservative in scope and would apply in a very limited number of cases. It would also require the creation of additional account codes to ensure that LEAs properly record and report such contributions.

Regardless of the option selected, a comprehensive discussion of the accounting treatment and reporting requirements for donations and contributions made by affiliated organizations should be added to the discussion content of the Handbook.

In assessing the possible options and the feasibility of adopting new reporting requirements, we conducted discussions with the Governmental Accounting Standards Board related to these issues. Based on these discussions we noted the following key considerations:

- The issue of recording the activity of affiliated entities is scheduled to be discussed at the Board's December meeting. According to GASB staff, a new exposure draft related to these issues may be issued in June 2000.
- GASB staff have encouraged the project to delay further consideration of these issues until the Board completes its deliberations.
- Any accounting guidance or reporting requirements that go beyond those set by GASB would amount to the promulgation of GAAP by an outside entity. These actions are discouraged by the Board.

Proposed Handbook Revision

We propose acceptance of Option 1 to reinforce the existing GASB reporting requirements for donations of funds and assets and on-behalf payments. Based on feedback from GASB and educational personnel, this option appears to be the most prudent solution at this time. Further, this option appears to be relatively easy to implement given that it will affect a small number of LEAs on an ongoing basis.

In order to implement this option, we recommend the revision of revenue code 1920 (Contributions and Donations From Private Sources). The current definition for the code is:

“Revenue from a philanthropic foundation, private individuals, or private organizations for which no repayment or special service to the contributor is expected.”

We propose the following expanded definition:

“Revenue associated with contributions and donations made by private organizations. These organizations include, but are not limited to, educational foundations, PTA/PTO organizations, campus booster clubs and private individuals. This code should be utilized to record on-behalf payments made by private organizations to LEA personnel (e.g., stipends paid to teachers or other LEA staff).”

In addition, a discussion of the proper accounting treatment for these types of revenues should be added to the discussion content of the Handbook. We propose the following discussion be adopted:

Donations and Contributions to LEAs by Affiliated Organizations

In recent years, the contributions of related third-party organizations (affiliated organizations) to LEAs in some jurisdictions have grown significantly. Although affiliated organizations traditionally have made contributions (financial, in-kind or donated goods) to school districts, the magnitude of these contributions are substantial in certain cases and may significantly impact the service delivery capabilities of an LEA. Affiliated organizations generally include PTA/PTOs, school foundations, booster clubs and other organizations that exist for the benefit of the LEA.

Definition of Affiliated Organizations

Affiliated organizations are defined as organizations that have been established to provide benefits to an LEA, its staff and its students. Typically, these organizations are private and are not under the direct control of the LEA. However, an affiliate organization generally is established to provide incremental resources to an LEA and often recognizes the affiliation in its by-laws or charter and in its application for tax-exempt status with the Internal Revenue Service (IRS). Affiliated organizations may include, but are not limited to, educational foundations, PTO/PTA organizations, booster clubs and other campus or district support organizations.

Benefits Derived From Affiliated Organizations

LEAs may derive benefits from affiliated organizations both directly and indirectly. Direct contributions may include funds donated to support a variety of educational or education-related activities, donated supplies and materials, and donated assets (such as computers). Traditionally, direct contributions (payments or assets that are donated centrally) have been recorded and reported by LEAs as local revenues. This reporting is consistent with the standards established by the Governmental Accounting Standards Board (GASB).

LEAs also may derive substantial benefits from contributions made by affiliated organizations that are not captured and reported in the school districts financial statements. These contributions may include such items as stipends paid directly to instructional staff, supplies and materials that are provided directly to instructional staff

or students, assets that are utilized by LEA personnel but where no ownership transfer is made, and payments made in lieu of those that would otherwise be made by the LEA. In some cases, these payments have a substitution effect in that they replace funds that normally would be expended by the LEA. In other cases, these payments merely augment public contributions to education with private funds.

Accounting Treatment

Consistent with the reporting requirements promulgated by GASB, LEAs are required to report all direct contributions of supplies, materials, equipment and other assets received from affiliated organizations (or any private contributor). These contributions and donations are recorded as revenues (based on the amounts received or estimated value of donated assets) by the LEA and reported in the period received. The accounting treatment for donated assets or expenditures (utilizing donated funds) are not distinct from other transactions of these types. Thus, LEAs should utilize the appropriate asset or expenditure codes when recording these transactions.

LEAs also are required to record any on-behalf payments made by third parties that benefit the LEA. GASB Statement No. 24 defines on-behalf payments as “direct payments made by one entity (the paying entity or paying government) to a third-party recipient for the employees of another, legally separate entity (the employer entity or employer government).” On-behalf payments include payments made by governmental entities on behalf of non-governmental entities and payments made by non-governmental entities on behalf of governmental entities. Based on the GASB reporting requirements, LEAs should record all payments made to its employees or other third parties (e.g., pension plans) by governmental and non-governmental entities. These include all pension contributions, stipends or supplements that are made by governmental (e.g., state agencies) or non-governmental entities (e.g., school foundations) on-behalf of the LEA.

LEAs are encouraged to disclose other non-financial contributions or donations made by affiliated organizations where a benefit is derived by the LEA. These contributions or donations are considered indirect since the LEA does not directly receive funds or assets as a result of the transaction. Traditionally, LEAs have not recorded and reported these transactions since they are not controlled and executed by LEAs. These contributions and donations include such items as:

- Personnel provided to the LEA by affiliated organizations on an in-kind basis
- Materials, supplies and equipment provided by affiliated organizations directly to teachers or students that contribute to the educational environment
- Supplies or equipment provided by affiliated organizations to non-instructional personnel (e.g., coaches or club sponsors) that support an LEA-sponsored program, team or club

These contributions and donations, while not controlled and executed by the LEA, do benefit the LEA, its staff and students. The underlying substance of these transactions

are similar to those in which the affiliated organization makes direct contributions or donations to the LEA. Thus, LEAs are encouraged to report these contributions in the footnotes to the financial statements. However, this accounting treatment and related reporting is optional for LEAs.

Coding Examples

1. A school foundation pays stipends to teachers of an LEA as a supplement to their normal compensation. The payments for fiscal year total \$450,000. All payments are made directly to the teachers from the school foundation.

The LEA should record the stipends paid to teachers based on the requirements of GASB Statement No. 24. Thus, the LEA would record \$450,000 in revenue to revenue code 1920 (Contributions and Donations From Private Sources) and a corresponding expenditure to expenditure object code 110 (Salaries of Regular Employees) and function 1000 (Instruction).

2. An LEA receives a donation of computers from a local technology corporation. The value of the computers on the date of donation is \$250,000. The cost per computer is \$2,500 which is under the capitalization threshold of the LEA.

The LEA should record the donation as revenue utilizing code 1920 (Contributions and Donations from Private Sources) for \$250,000. The balancing expenditure entry would be made to object code 739 (Other Equipment) utilizing function code 2846 (Hardware Maintenance and Support Services).

3. A high school athletic booster club provides a part-time trainer to support the football team during the season. The trainer is not an employee of the school district employee; however, the individual does serve LEA students during football games and practices.

Under GAAP the LEA would not be required to record or report the value of these services in its financial statements (since the trainer is not a school district employee). However, the LEA may choose to disclose the amount of donated services in the footnotes to its financial statements. If the LEA chooses to disclose this information, the trainer's services should be reflected at the fair value of the services at the time they are donated.

4. A school foundation donates laptop computers to students within the gifted and talented program of a middle school. The computers are provided directly to the students and are not donated to the LEA. The value of the computers totals \$115,000.

Under GAAP the LEA would not be required to record or report the value of the donated computers in its financial statements (since the donation is not made to the LEA directly). However, the LEA may choose to disclose the amount of donated computers in the footnotes to its financial statements. If the LEA chooses to disclose

this information the computers should be reflected at the fair value as of the date of the donation.